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Office of the Legislative Auditor

State of Montana

Report to the Legislature

April 1992

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

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Department of Social and Rehabilitation Services

This report contains 19 recommendations to the department concerning:

- Strengthening systems to improve controls over

  --general assistance expenditures
  --contingent revolving account payments
  --data processing systems

- Unreconciled Special Revenue Fund balances.

- Compliance with certain state and federal laws and regulations.

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Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1991

Department of Social and Rehabilitation Services

Members of the audit staff involved in this audit were: Pete Brustkern, Brenda Bokovoy, Laurie Evans, Wayne D. Guazzo, Frieda Houser, Glenn Jorgenson, Rich McRae, Charles Nemec, Catherine L. Scarff, and Cindy D. Susott.

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Appointed and Administrative Officials

Department of Social and Rehabilitation Services		
	Julia E. Robinson	Director
	John Donwen	Administrator Support Services Division
	Mike Hanshew	Administrator Developmental Disabilities Division
	Norm Waterman	Administrator Family Assistance Division
	Nancy Ellery	Administrator Medicaid Services Division
	Joe Mathews	Administrator Rehabilitative/Visual Services Division
	Mary Ann Wallbank	Administrator Child Support Enforcement Division

Summary of Recommendations

This listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1	We recommend the department establish control over its contingent revolving fund account. Agency Response: Concur. See page 46.	8
Recommendation #2	We recommend the department analyze the second-party review policy and make changes necessary to ensure the performance of effective quality control review of General Assistance cases. Agency Response: Concur. See page 46.	10
Recommendation #3	We recommend the department ensure employees at the counties review all new General Assistance case files before issuing payment. Agency Response: Concur. See page 46.	11
Recommendation #4	We recommend the department review the condition of the files at its county offices and implement procedures to ensure compliance with the general assistance program policy. Agency Response: Concur. See page 46.	12
Recommendation #5	We recommend the department analyze and correct fund balances in the federal special revenue account. Agency Response: Concur. See page 47.	14
Recommendation #6	We recommend the department establish procedures to ensure revenue and expenditures are properly deferred or accrued in accordance with state law. Agency Response: Concur. See page 47.	15

Summary of Recommendations

Recommendation #7

We recommend the department record the cost of computer software on the state's accounting system. 15

Agency Response: Concur. See page 47.

Recommendation #8

We recommend the department comply with state appropriation law. 16

Agency Response: Concur. See page 47.

Recommendation #9

We recommend the department:

A. Comply with the provisions of section 40-5-118, MCA, regarding child support reporting or;. 18

Agency Response: Concur. See page 47.

B. If necessary, seek legislation to modify section 40-5-118, MCA, to remove unnecessary requirements. 18

Agency Response: Concur. See page 47.

Recommendation #10

We recommend the department:

A. Comply with the term contract requirements as provided by state purchasing policy. 19

Agency Response: Concur. See page 48.

B. Process purchase orders through the Department of Administration for purchases when like items have a combined cost of more than $2,000. 19

Agency Response: Concur. See page 48.

Recommendation #11

We recommend the department transfer $169,167 in statewide cost allocation plan reimbursements to the General Fund as required by state policy. 21

Agency Response: Do Not Concur. See page 48.

Recommendation #12

We recommend the department suspend computer system logon identification codes when employees terminate employment. 22

Agency Response: Concur. See page 48.

Recommendation #13

We recommend the department pay Medicaid claims only for drugs which are considered effective by the Food and Drug Administration. 23

Agency Response: Concur. See page 49.

Recommendation #14

We recommend the department obtain and review audit reports of nonprofit organizations as required by OMB Circular A-133. 25

Agency Response: Concur. See page 49.

Recommendation #15

We recommend the department:

A. Ensure Emergency Food Assistance programs are reviewed annually in accordance with federal regulations. 26

Agency Response: Concur. See page 49.

B. Monitor all emergency food assistance program corrective action plans. 26

Agency Response: Concur. See page 49.

Recommendation #16

We recommend the department implement a system to ensure FDIR workpapers and reports are retained for three years in accordance with federal regulation. 26

Agency Response: Concur. See page 49.

Recommendation #17

We recommend the department maintain all cost allocation plan support documentation for three years as required by federal regulations. 28

Agency Response: Concur. See page 50.

Summary of Recommendations

Recommendation #18

We recommend the department correct the overcharges in the Medicaid and Low-Income Home Energy Assistance programs, and the undercharge in the Vocational Rehabilitation program. 28

Agency Response: Concur. See page 50.

Recommendation #19

We recommend the department ensure county employees promptly report all Food Stamp overissuances to the department's Fraud and Recovery Section. 29

Agency Response: Concur. See page 50.

Introduction

Introduction and Scope of Audit

We performed a financial-compliance audit of the Department of Social and Rehabilitation Services (SRS) for the two fiscal years ended June 30, 1991. The objectives of the audit were to:

1. Review the adequacy of the management information system and make recommendations for the improvement of management and internal controls of the department.
2. Determine if the department complied with applicable state and federal laws and regulations.
3. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for the two fiscal years ended June 30, 1991.
4. Determine implementation status of prior audit recommendations.

This report contains 19 recommendations to the department. These recommendations address areas where the department can improve management, internal controls, accounting procedures, and compliance with laws and regulations. Other concerns deemed not to have a significant effect on the successful operations of department programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

The legislature created the Department of Social and Rehabilitation Services as a multi-function human services agency under the Executive Reorganization Act of 1971. SRS provides:

1. Assistance to qualified individuals or families; for example, general assistance, food stamps, food commodities, and aid to families with dependent children (AFDC).
2. Medical assistance.
3. Medical and educational assistance to the developmentally disabled and the physically handicapped.

4. Rehabilitation of the vocationally and visually handicapped.
5. Child support enforcement assistance.

In September 1989, SRS management reorganized the department into six divisions. The reorganization also created an office of management analysis and systems within the director's office. In addition to budgeting and program planning, this office is responsible for coordinating all department electronic data processing projects. These include: 1) The Economic Assistance Management System (TEAMS), 2) revisions of the Medicaid Management Information System (MMIS), and 3) development of a system for the enforcement and recovery of child support. The duties and functions of the six divisions are described as follows:

The Family Assistance Division manages and supervises a number of programs which receive funds from the state and federal government but are administered by SRS employees at the counties. The division's responsibility for the assistance programs includes developing policies and procedures which comply with state and federal laws and regulations. The division also supervises the implementation of these programs at the counties.

The Medicaid Services Division ensures that those individuals who can not afford appropriate medical services receive necessary care. The division administers the Medicaid program and the state medical portion of the state general relief assistance program.

The Developmental Disabilities Division contracts with nonprofit organizations to provide services to developmentally disabled people. The Developmental Disabilities program is responsible for administration of the state's community based programs for individuals disabled by epilepsy, autism, mental retardation, and conditions closely related to mental retardation if the disability occurred before the person reached the age of 18.

The Rehabilitative/Visual Services Division provides services to Montanans with physical and mental disabilities. Some of the services include diagnostic evaluations, counseling, job training, job placement, independent living, extended employment, and supported employment.

The Child Support Enforcement Division establishes the paternity of children, locates parents who have left their families, establishes absent parents' legal support obligations, including medical health insurance, and enforces those obligations. Services are provided to AFDC recipients and to families not receiving public assistance. Such services are made available to Montana residents and out-of-state families. This division was transferred from the Department of Revenue effective July 1, 1989.

The Support Services Division provides administrative and fiscal support for the department. The division also administers the quality control review process associated with economic assistance programs and oversees audits of service providers.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 1989. The report contained 27 recommendations applicable to the department. The department implemented 11 recommendations, partially implemented 7, and did not implement 6. Three recommendations are no longer applicable to the department. The recommendations not implemented relate to contingent revolving fund, segregation of duties, and the processed check lists on pages 6 through 8; compliance with state laws regarding the department's operating budget limitation on page 15; analyzing and correcting fund balances in the federal Special Revenue Fund on page 13; and the transfer of statewide cost allocation plan moneys to the state General Fund on page 19.

Medicaid Waiver Controls

To meet federal medicaid requirements, the department requested that we extend our audit tests over the Medicaid Waiver programs (CFDA #13.714) during our prior audit. Medicaid Wavier programs allow qualified individuals to receive Medicaid benefits while living in a private home, rather than in a nursing home, if it is cost effective. The department did not implement the prior audit recommendation to communicate control procedures for the authorization of elderly and handicapped waiver expenditures to contractors and ensure contractors implement the control procedures effectively.

We also observed in the prior audit that certain Medicaid Waiver claims paid were not authorized by the case management personnel at the time of payment. We also noted an unauthorized claim paid by the data processing contractor because the case management contractor had not properly disallowed the payment. Data processing input screens did not prompt the data entry person to check for case management team authorization.

Department management concurred with the recommendation but did not implement it. In a January 1991 letter report of the implementation status on the prior audit recommendations, the department indicated all case management teams will be audited by the department in the fiscal years 1990-91 or 1991-92 and the audits will include close scrutiny of the authorization procedures.

The report indicated case management teams have been instructed in the proper method of denying unallowable claims. It also indicated prompts have been placed on the computer system to encourage data entry personnel to check for proper authorization.

As of January 2, 1992, none of the case management teams have been audited. Department personnel indicated audit staff have been used on other work and have not performed audits of the case management teams. In addition, we found no evidence to indicate case management teams were instructed in the proper method for denying Medicaid claims. The department has instructed the financial intermediary, which processes Medicaid claims, to place authorization edits on the computer system to prompt data entry personnel to check for a proper authorization.

Contingent Revolving Fund

In each of the last four audits of the department and during the current audit (a ten-year period), we observed significant internal control weaknesses which could allow persons working at department offices to write unauthorized contingent revolving fund (CRF) checks. The department maintains blank checks at each of the 56 counties and 10 district offices. The department employees write approximately $10 million in checks annually through this fund. The department uses the CRF predominantly for general assistance and Aid to Families with Dependent Children (AFDC) program (CFDA #13.780) payments.

During the current audit we noted five concerns with the CRF control system.

> At seven of the nine counties we visited, we noted employees have access to the blank checks and are authorized signers for the CRF. Individuals with these duties have the ability to make unauthorized payments. State policy requires that different personnel should have responsibility for authorizing transactions, and maintaining security of assets. County personnel cited the small number of staff in their offices as a reason for not segregating duties. Since most offices have at least two or three staff, we believe a more effective segregation of duties is possible. The department should separate the responsibility for the security of blank checks from the individual who has authority to sign the checks.
>
> The department has not established a maximum dollar limit for which checks can be written. Currently, an authorized signer, at any of the 66 locations where blank checks are maintained, could issue a check for an unlimited amount, because the checks do not specify a limit, such as "valid for amounts less than $1,000." A majority of the checks we observed during the audit were issued in amounts less than $500. The department could establish a reasonable limit based on a review of the checks issued during the past year. A maximum dollar limit would help reduce the risk of large losses due to theft or checks altered by recipients. Department personnel indicated it is the department's policy that all checks over $600 must be approved by the fiscal bureau in the Helena office. Without a limit printed on the check the department's policy does not significantly reduce the

risk of improperly issued checks or check altering by the recipient.

We observed instances where uncashed checks remained on the outstanding check list and were not cancelled by the department after 180 days. The department has a written policy to cancel payment on all contingent revolving fund checks issued which are not cashed within 90 days. Based on our observation, the department does not consistently follow this policy. Department personnel indicated the policy is out of date and it should be revised.

The department prepares a monthly list of CRF checks processed by each county. By using the processed check list, field office personnel can compare the list of checks processed with their records to ensure that only properly authorized checks were processed. In our audit, we found that only three of the nine counties we visited, which receive the list, use it as intended. In two other counties, personnel indicated the list is used to ensure only properly authorized checks were processed but they do not document their review. Personnel in the four remaining counties indicated either the list is not received or that they do not use the list as intended because of insufficient available time. This concern was addressed in the previous audit. Department personnel in Helena said monthly processed lists are sent to all counties. The officials indicated counties have been instructed to perform the comparison.

The internal control weaknesses we observed above could be mitigated when the department performs its monthly bank reconciliation. However, the account has not been completely reconciled for two years. State policy requires a monthly reconciliation of all contingent revolving accounts. Department policy requires that completed reconciliations be reviewed and approved by a supervisor.

We noted unexplained differences on each of the department's 24 monthly reconciliations prepared during our audit period. The differences, which at times exceeded $17,000, were identified on the reconciliation form as "reconciling items." In one instance, 12 checks amounting to nearly $2,100 were improperly written off the books. Only two of the twenty-four reconciliation forms completed during the audit period were signed as approved by the supervisor. If the department does not periodically reconcile cash per its records to cash on the bank statement, the department increases its risk that significant intentional or unintentional errors will occur.

Department management indicated a high level of employee turnover caused inexperienced individuals to reconcile the account. If a department supervisor would have reviewed the reconciliations as required by policy, the errors should have been detected. Because the account is held outside the state treasury and because the account is not subject to the same controls as warrants issued by the State Auditor's Office, the cash in the account is subject to high inherent risk. Due to the high risk and because $10 million in checks are paid out of the account annually, the department should maintain effective controls to secure the account.

Recommendation #1

We recommend the department establish control over its contingent revolving fund account.

General Assistance

The Montana Constitution authorizes the Montana Legislature to provide General Assistance (GA) program moneys to people in need. Generally, unemployed people can receive GA for a four-month period in any year. General Assistance eligibility is contingent upon participation in a job search, training, and project work programs. Under certain conditions, such as clients with substance dependency or dependent children, the eligibility period can be extended to six months. In addition, unemployable people can receive GA for the duration of their need. Unemployable people are predominantly those with physical or emotional handicaps, or those who because of age are unable to obtain or retain employment. In fiscal years 1989-90 and 1990-91, the department spent $3,118,814 and $2,112,505, respectively for GA.

State law allows the state, at the county's option, to assume the county's welfare programs, including general assistance operations. Twelve counties have chosen to be served by the state. The counties who choose this option must levy 12 mills to be paid to the state. The state, in turn, makes all GA payments. Applications and eligibility determinations for general assistance for the assumed counties are processed at the counties following department policy manual guidelines. Those counties not opting to be state assumed pay for GA solely from county funds.

In a prior audit, we found that nearly 50 percent of the files we reviewed at the state-assumed counties contained significant errors. These errors included information required to determine participant eligibility, incorrect calculations of GA payments, and inadequate documentation to show that participants complied with project work requirements. As a result of the high error rate, and an audit recommendation that the department perform quality assurance reviews of the GA program, the department established two internal controls to reduce the error rate. Each eligibility technician's (ET) supervisor or county director was required to perform second-party reviews of a sample of case files. Also, all files for new GA applicants are required to be reviewed by someone other than the ET who processed the case.

We believe the internal controls established by the department are crucial to maintaining low error rates in the program. The following three report sections disclose control weaknesses identified at the county offices.

Second-Party Reviews

Department policy requires each state-assumed county perform comprehensive second-party reviews of a sample of case files each month. The policy requires that the lesser of five cases per full-time equivalent employee handling cases/applications or 25 cases per supervisor must be reviewed monthly. The department provides a specific form to ensure documentation of review of important information in the files. We noted no documentation of second-party reviews at three of the six state-assumed counties we visited. County personnel at these counties indicated there was not enough time to perform the reviews; or if the reviews were performed, completing the required form took an excessive amount of time. The department requires the county to provide summaries of the results to the area supervisor. The area supervisor reviews the results and forwards them to SRS headquarters. One area supervisor indicated he had stopped sending the results to SRS headquarters. The summary results assist the department in identifying error trends and fraudulent activities. The department can then take corrective action.

The second-party review is an important internal control to ensure GA resources are properly spent. If the system is not working as planned, the department should analyze it and make necessary changes to ensure effective and efficient reviews are performed.

Recommendation #2

We recommend the department analyze the second-party review policy and make changes necessary to ensure the performance of effective quality control review of General Assistance cases.

Review of New General Assistance Cases

SRS policy requires state-assumed counties to review all new GA cases before payments are made. The policy requires that at a minimum, the reviewer shall verify that the following are documented in the file: income of the recipient, resources, and a proper budget calculation. The reviewer is required to initial the cases reviewed and keep a monthly list of those cases. The policy also requires the county director to submit monthly to the area supervisor the list of new cases reviewed and a list of each GA payment made during the previous month.

We noted two of six state-assumed counties we visited did not consistently comply with this policy. In one county, seven out of seven cases we tested were not reviewed as required. Personnel indicated reviews of new case files are normally not performed because of insufficient staff time. In another county, three out of ten new case files we examined were not initialed as having been reviewed. Personnel there indicated the cases may have been reviewed but not initialed or the case files may have just been missed and not reviewed.

Recommendation #3

We recommend the department ensure employees at the counties review all new General Assistance case files before issuing payment.

General Assistance Errors

In one county, we noted that GA client files contained a higher number of errors than found in the other counties. Of the 45 files we examined, 16 did not fully comply with department policy. The 16 GA client files contained payment errors, as well as other deviations from the department's policy.

Department case management policy for GA requires certain documentation to be present in the client files to support the propriety of benefit payments. Specific forms are required to authorize benefit payments, to change benefits, to discontinue benefits, and to reinstate benefits. The policy also specifies how documents are to be organized within the file.

Three of the sixteen files contained evidence indicating benefits were improperly calculated. The errors ranged from an $86 underpayment to a $150 overpayment. Another three files were missing required documentation which would support the benefit amount paid. Missing from one file was the participant's application for benefits. Another file showed that the participant's benefits were terminated for not fulfilling the project work requirements. The participant's benefits were later reinstated but we found no evidence in the file which showed the basis for qualification for benefits. Another file did not contain documentation indicating an ET had authorized the benefit payment.

In other files we noted documents were not in chronological order and some documents were located in an improper section of the file. Documents were loose in the file folders even though some were received more than one year prior to our review. Because files are not properly organized at the county office, the department has increased the risk of improper benefit payments. Unorganized case files also cause an increase in the amount of time required to prepare and process benefit payments.

Employees at the county office indicated the issues we noted were caused by inexperienced staff and insufficient time to perform the required documentation. Department management in the Helena office said they were not previously aware of particular concerns with the county office.

Recommendation #4

We recommend the department review the condition of the files at its county offices and implement procedures to ensure compliance with the general assistance program policy.

Accounting Issues

State law requires transactions entered on the state's accounting system be in accordance with Generally Accepted Accounting Principles (GAAP). The Accounting Bureau of the Department of Administration (DofA) issues accounting rules to ensure state accounting policy complies with GAAP. We noted several instances where department personnel did not record transactions in compliance with state accounting policy.

Fund Balances

At fiscal year-end 1990-91, the department maintained a federal special revenue account with a negative fund balance of $777,083. State policy requires the fund balance in this account be zero at fiscal year-end. The department uses this account for recording activity related to federal public welfare grants. The majority of the moneys are provided by the U.S. Department of Health and Human Services under the Medicaid program (CFDA #13.714).

State policy requires that federal funds expended always equal federal revenue in this account. Thus, if we begin with a zero fund balance in a federal special revenue account, and if the additions to fund balance (revenue) equal reductions in fund balance (expenditures), then fund balance at the end of a year must be zero.

Since fiscal year-end 1984-85, this account has not had a zero fund balance as required by state accounting policy. The fund balance ranged between a negative fund balance of $7,454,206 and a positive fund balance of $3,836,460. Department personnel think the fluctuations have been the result of errors in each of those years. During our audit, we noted a transaction in fiscal year 1989-90 adjusting prior year federal expenditures downward by $7.3 million. This adjustment also caused the fund balance to increase by the same amount because the department did not record a corresponding decrease to prior year revenue. Department procedures, as described to us by department personnel, indicate there should have also been an adjustment to prior year revenue. Department personnel were unable to produce documentation showing why the adjustment to the prior year revenue was not recorded.

Department personnel have been unable to reconcile revenue and expenditures in this federal account over the past six years. As a result, we are unable to determine whether the account balance is overstated by $7.3 million or whether it is understated. This concern has been addressed in two prior audit reports. The department concurred with the recommendations in each report. In February 1988, the department stated the analysis would be completed and corrections made by fiscal year-end 1988. In

April 1990, the department again stated the analysis would be a priority to be completed by July 31, 1990.

The department implemented procedures on July 1, 1991, which it believes will identify the nonfederal portion of the fund balance in this account. On July 1, 1991, the department closed its out-of-balance federal account. It established a new account for recording of federal revenue and expenditures. The results of this procedure to correct the account balance will probably not be known until near the end of fiscal year 1991-92.

Recommendation #5

We recommend the department analyze and correct fund balances in the federal special revenue account.

Accruals and Deferrals

During fiscal years 1989-90 and 1990-91, the department improperly deferred or accrued five revenue and expenditure transactions amounting to $327,000. State law and state accounting policy require that at fiscal year-end each state agency ensure that all revenues are properly accrued or deferred. The policy also requires that agencies record expenditure accruals for all valid obligations.

The errors we noted occurred in both the General Fund and the Special Revenue Fund primarily for the Developmental Disability program (CFDA #13.631). Department personnel indicated the errors were caused by the large number of transactions processed during the fiscal year-end period. Department accounting personnel should establish fiscal year-end procedures which ensure all accrual and deferral transactions are properly recorded.

Recommendation #6

We recommend the department establish procedures to ensure revenue and expenditures are properly deferred or accrued in accordance with state law.

Computer Software

During fiscal years 1989-90 and 1990-91, the department purchased computer software amounting to $59,967 and $149,333, respectively, which was not recorded on the state's property accounting system as required by state accounting policy. State accounting policy requires that assets such as computer software be recorded on the accounting system. This concern was discussed in the prior audit report. The department concurred with the recommendation, but did not implement it.

Recommendation #7

We recommend the department record the cost of computer software on the state's accounting system.

State Compliance

During our audit, we tested compliance with certain state laws and policies related to the department operations. We noted the following instances discussed below where the department did not comply with provisions of state laws and policies.

Operating Plan Limits

The department overspent its operating plan authorizations by more than the allowable 5 percent in two programs in fiscal year 1989-90 and in four programs in fiscal year 1990-91. State appropriation law requires "Expenditures by a state agency must be made in substantial compliance with an operating budget . . . Substantial compliance means that no category in the approved operating budget may be exceeded by more than 5 percent . . ." The following table identifies the programs where department expenditures exceeded the approved operating plan by more than 5 percent.

Table 1

Schedule of Dollars Spent in Excess of 5 Percent Limit by Fiscal Year, Program, and Category

Fiscal Year	Program	Expenditure Category	Excess Expenditures
1989-90	Administration and Support Services	Equipment	$ 31,909
	Developmental Disabilities	Equipment	398
1990-91	Family Assistance	Equipment	1,163
	Administrative & Support Services	Operating Exp.	120,746
	Child Support	Equipment	39,754
	Office of Mgmt. Analysis and Systems	Equipment	138,514

Department personnel indicated it is unavoidable for expenditures to exceed the 5 percent limit in an agency as large and decentralized as SRS. At fiscal year-end they stated there is no time to track each expenditure to the operating budget before paying a claim.

Recommendation #8

We recommend the department comply with state appropriation law.

Child Support Reporting

The department is not in compliance with section 40-5-118, MCA, subsections (2a) and (4), which require the department to:

-- Compile a list of Montana courts and their addresses having jurisdiction over child support cases and transmit the list to the state information agency of every other state with a substantially similar law.

-- Take action to ensure local prosecuting attorneys are diligently prosecuting child support cases filed by another state in a Montana court.

Department personnel indicated they are not in compliance with these two provisions because the law is no longer applicable. The provisions of the law referred to above were needed prior to Montana adopting a law requiring one central clearinghouse for all federal Title IV-D child support cases. In 1989, Montana's legislature passed section 40-5-263, MCA, which requires the department to establish a clearinghouse for the registration of child support cases referred by other states. The clearinghouse is to serve as the central point for receipt and dissemination of information regarding interstate enforcement requests. Department personnel believe the establishment of the clearinghouse eliminated the need and desirability of every state contacting individual courts to process child support cases. As a result, SRS stopped performing the requirements of the old law.

The department should comply with the requirements of the old law or seek legislation to amend or repeal them if department personnel believe they are no longer necessary.

Recommendation #9

We recommend the department:

A. Comply with the provisions of section 40-5-118, MCA, regarding child support reporting or;

B. If necessary, seek legislation to modify section 40-5-118, MCA, to remove unnecessary requirements.

Purchasing Procedures

The department did not comply with state purchasing policy when it purchased 12 fax machines in fiscal year 1990-91. Fax machines are a term contract item but the department purchased the machines from a vendor who did not hold the state's term contract. State policy requires the department to purchase commodities, which are listed as term contract items, only through a vendor that holds the particular term contract. Term contracts are issued by competitive bid and the successful vendor has the exclusive right to sell the product to the state of Montana for the period of the contract.

In addition, the department circumvented policies which require state agencies to process purchases through the Department of Administration (DofA) Procurement and Printing Division when items ordered, individually or a group of like items, have an estimated total cost in excess of $2,000. State policy prohibits agencies from dividing procurements to avoid processing the order through DofA.

The department purchased five fax machines in March 1991 and seven more in June 1991. Although the department paid $1,069 for each machine, the March combined purchase exceeded $5,000, and the combined June purchase exceeded $7,000. The department avoided processing the purchase orders through DofA by splitting the purchases among separate purchase orders. Thus, the purchase of each machine was less than the $2,000 limit which would have required a review by DofA. If the purchases were reviewed by DofA, it could have required the department to comply with the term contract provisions. The purchasing records indicate the department split the purchase among 12 purchase orders which circumvented the $2,000 limit. The March 1991 purchase orders were dated within three days of each other and four of the purchase orders were dated the same day. The June 1991 purchase orders were all dated the same day.

Department personnel indicated they submitted separate purchase orders to ensure the machines were recorded in the appropriate cost centers on SBAS. The personnel said the term contract was not used for the purchase because the person responsible for purchasing was not completely aware of the state purchasing requirements. The department should establish other procedures to ensure items purchased are recorded in the appropriate cost centers.

Recommendation #10

We recommend the department:

A. Comply with the term contract requirements as provided by state purchasing policy.

B. Process purchase orders through the Department of Administration for purchases when like items have a combined cost of more than $2,000.

Statewide Indirect Costs

For the past three audits, the department has not deposited all Statewide Cost Allocation Plan (SWCAP) cost reimbursements in the General Fund as required by state policy. State accounting policy (MM 2-88-2) states that ". . .all agencies must determine the amount of the recoveries that are due to the costs included in Section 1 of the Statewide Cost Allocation Plan and move that amount into the General Fund. . ." The purpose of the state policy is to ensure the General Fund is reimbursed for indirect costs which are allocable to federal programs.

In the prior two audit reports, we reported the department had not transferred a total of $153,953 in SWCAP cost reimbursements to the General Fund. We recommended the department transfer this amount to the General Fund. The department did not concur with the recommendation and did not transfer $153,953 to the General Fund. In the current audit, we noted the department should have transferred an additional $15,214 in SWCAP cost recoveries to the General Fund. A department official said the department did not transfer SWCAP reimbursements to the General Fund for two grants because the department had expended up to the federal limit for administration for these grants (CFDA #13.667 and #10.568). In such cases, additional administrative costs charged to these grants would be unallowable and the costs would be paid by the General Fund. In addition, department management said the department believes it has in the past complied with the state policy (MM 2-88-2).

By spending the SWCAP reimbursement out of the Special Revenue Fund to offset General Fund expenditures the department is understating the actual General Fund support for federal programs. At the end of fiscal years 1989-90 and 1990-91, and for the years covered by the prior two audits, the department had sufficient appropriation authority to pay its program expenditures from the General Fund. The department could have transferred SWCAP reimbursements to the General Fund as required by state policy and properly acknowledged the General Fund support of its programs.

We made a similar recommendation in the prior two audits. The department did not fully implement the recommendation, but did increase the number of grants for which SWCAP reimbursements were made to the General Fund.

Recommendation #11

We recommend the department transfer $169,167 in statewide cost allocation plan reimbursements to the General Fund as required by state policy.

Data Processing Security

The Electronic Data Processing (EDP) systems used by SRS contain information for services administered through the department. Examples of information on the system include recipient's name, income, medical and other services provided, vendors such as names of doctors, and benefit payment amounts. This type of information is sensitive because some of it is confidential and should be adequately safeguarded. Our audit identified a weakness in controls which could allow unauthorized persons access to sensitive information. Our concern is discussed in the following report section.

Access Controls

The department maintains essential data on recipients who receive benefit payments on its EDP system. Such payments are made from the state General Fund and the federal Special Revenue Fund. Federal benefit payments which exceed $250 million each year are primarily provided by the U.S. Department of Health and Human Services, Medicaid program (CFDA #13.714). Computer access controls help prevent deliberate or accidental unauthorized use or manipulation of the data files. The department uses security identification codes (IDs) to restrict access to sensitive computer files. Security IDs should be suspended when an employee terminates to maintain an acceptable level of security over the EDP system.

Of 38 terminated employees we tested, 35 employee security IDs were not suspended upon termination. Sixteen of the employees terminated their employment from 10 to 29 months prior to our test but their IDs were still active during our test. State EDP policy requires the department's management to suspend logon

IDs of terminated employees. By not suspending the logon IDs when an employee terminates employment, the department increases its risk that unauthorized persons will access sensitive information and potentially allow incorrect benefit payments under the various programs administered by the department. The terminated employees had access to various system programs and data files including files which generate warrants for the Medicaid and the Aid to Families with Dependent Children (AFDC) programs. We noted ten terminated employees accessed department data files after the date of their termination. Two of the terminated employees kept their logon IDs because the individuals were employed by a contractor which installed a new computer system for the department. Department management could not explain why eight of the ten terminated employees had accessed the computer system. We noted a similar concern in the previous audit of the department.

Recommendation #12

We recommend the department suspend computer system logon identification codes when employees terminate employment.

Federal Program Compliance and Management

The federal Single Audit Act of 1984 requires auditors to test compliance with federal laws and regulations which apply to the operation and management of major federal assistance programs. Major federal assistance programs for the state of Montana are defined in federal law as any program for which federal expenditures exceed $3 million in a fiscal year. At the department, we specifically tested compliance and expenditure allowability for the Medicaid program, the Food Distribution program, the Food Stamps program, the Low Income Home Energy Assistance program (LIHEAP), the Social Services Block Grant, and the Aid to Families with Dependent Children (AFDC) program.

To comply with federal audit requirements our report discloses federal compliance issues identified during the audit. These federal compliance issues are discussed on pages 23 through 29 of this report.

"Less Than Effective Drugs"

The department paid Medicaid claims for prescription drugs which Food and Drug Administration (FDA) considers "less than effective." Federal regulations prohibit the department from spending federal Medicaid funds (CFDA #13.714) for drugs which are not effective in treating patients. We tested all Medicaid claims for prescription drugs processed by the department from January 1, 1991 through June 30, 1991. We noted the department improperly paid $9,556 in claims for prescription drugs which are considered less than effective by the FDA. Department personnel indicated the contractor that processes Montana's Medicaid claims did not use available information that should have identified and allowed the contractor to purge these drugs from claims paid by the department. The contractor is responsible under its contract with the department to ensure only allowable claims are paid by Medicaid. The department is also responsible for monitoring the types of goods and services approved for payment, yet department personnel were not aware that the department paid for less than effective drugs before we brought it to their attention.

We question the allowability of Medicaid claims for less than effective drugs amounting to $9,556. If the department finds that the improper drug payments were caused by contractor error, it should seek reimbursement from the contractor.

Recommendation #13

We recommend the department pay Medicaid claims only for drugs which are considered effective by the Food and Drug Administration.

Subrecipient Audits

The department does not have procedures for obtaining and monitoring audit reports of certain private nonprofit corporations performed under the provisions of Office of Management and Budget (OMB) Circular A-133. This circular establishes the federal audit requirement for nonprofit organizations that receive more than $25,000 in federal funds. The nonprofit corporations receive Vocational Rehabilitation (Voc Rehab) funds (CFDA #84.126) and Developmental Disabilities (DD) program funds (CFDA #13.631). The department, as the recipient of federal assistance, is required by federal regulations to have a system of monitoring subrecipients such as nonprofit corporations.

One method the department is required to use to monitor private nonprofit corporations is to review their audit reports. These audit reports are already required by federal regulation for fiscal years that begin after January 1, 1990. By inserting a clause in the Voc Rehab and DD contracts requiring that copies of audits of the corporations be submitted to SRS, the department can ensure these reports would be available for use as a monitoring tool.

Department personnel indicated some of the large DD provider corporations are currently audited by the department's Audit and Compliance Bureau. The personnel indicated SRS did not have sufficient audit staff to audit all DD provider corporations every two years as required by the federal regulation. Consequently, some DD providers may be required to obtain the audit from a private CPA firm and provide the report to SRS. Personnel indicated the department has not required Voc Rehab nonprofit corporations to obtain an audit; however, SRS is currently reviewing its policy regarding the Voc Rehab audits.

Recommendation #14

We recommend the department obtain and review audit reports of nonprofit organizations as required by OMB Circular A-133.

Food Distribution Reviews

The department has not performed annual reviews of all Emergency Food Assistance program (EFAP) organizations as required by Federal Food Commodities program (CFDA #10.568) regulations. Federal regulations require that the department annually review operating procedures such as eligibility determinations, food ordering, storage and warehousing, reporting and recordkeeping at each EFAP organization. When deficiencies are observed the federal regulations require that the department monitor the implementation of corrective action.

The department maintains fifteen contracts with organizations operating emergency feeding facilities. We noted four of the fifteen EFAP organizations were not reviewed by the department in fiscal year 1989-90 or 1990-91 as required by federal regulation. One other organization did not receive an annual review in fiscal year 1989-90. In addition, for two of ten EFAP corrective action plans, we found no evidence that the department monitored corrective actions to ensure compliance with the federal regulation.

Department personnel indicated the noncompliance with federal regulation noted above is caused by a shortage of available staff.

Recommendation #15

We recommend the department:

A. Ensure Emergency Food Assistance programs are reviewed annually in accordance with federal regulations.

B. Monitor all emergency food assistance program corrective action plans.

Food Distribution Records Retention

Department personnel were unable to locate records which demonstrate two Indian reservation food commodity programs (CFDA #10.567) were reviewed by the department in fiscal year 1989-90. The annual review of the Food Distribution on Indian Reservations (FDIR) is required by federal regulation. The regulation also requires that records of the review process be retained for three years after the end of the fiscal year to which the records pertain.

Department personnel were able to provide us with evidence that a federal agency had reviewed the FDIR reports; however, the personnel were unable to locate the workpapers or the reports for our inspection. The department personnel were unable to explain what happened to the reports.

Recommendation #16

We recommend the department implement a system to ensure FDIR workpapers and reports are retained for three years in accordance with federal regulation.

Cost Allocation Plan Support Documentation

The department did not have documentation to support segments of its cost allocation plan. The department uses the cost allocation plan to claim reimbursement for administering federal programs. Federal regulations require that state agencies maintain documentation to support all federal assistance expenditures for at least three years.

Department personnel indicated they had lost support for the calculation of the percentage of time used by welfare investigators working on the Aid to Families with Dependent Children (AFDC) (CFDA #13.780) and the Food Stamp (FS) (CFDA #10.561) programs. The department determines the allocation percentage by randomly selecting two working days per month. On the days selected, the welfare investigators complete a detailed time report describing the amount of time spent working on the programs. This information is assimilated and used in the department's cost allocation process.

Department personnel indicated the July through November 1989 time logs for the welfare investigators were lost and they were not available for audit. The personnel recalculated the information for the AFDC program and the FS program. However, the recalculated percentages did not agree with the percentages used in the cost allocation plan. Department personnel indicated the differences between the original percentages and the recalculated percentages were caused by the timing of the calculation. The personnel indicated additional time reports may have been received subsequent to the original calculation. Based on our review, we noted no significant difference between the original calculation and the recalculation. However, as required by federal regulation, the department should maintain a system to keep all cost allocation plan support documentation for three years.

Recommendation #17

We recommend the department maintain all cost allocation plan support documentation for three years as required by federal regulations.

Federal Grant Expenditures

In fiscal year 1989-90, the department improperly charged the Medicaid program (CFDA #13.714) and the Low-Income Home Energy Assistance program (LIHEAP) (CFDA #13.789) for services which should have been charged to the Vocational Rehabilitation program (CFDA #84.126). Federal regulations require that each federal assistance program be charged only for its share of allowable expenditures. The department overcharged LIHEAP by $339 and Medicaid by $2,002 and we question the allowability of these costs. The department also undercharged the Vocational Rehabilitation program by $2,341. Department personnel indicated the improper charges were caused by a keypunch error on one accounting document. The personnel said the error would be corrected.

Recommendation #18

We recommend the department correct the overcharges in the Medicaid and Low-Income Home Energy Assistance programs, and the undercharge in the Vocational Rehabilitation program.

Food Stamp Overissuance Recoveries

We observed two instances where the department did not properly follow up and attempt to collect Food Stamp program (CFDA #10.561) overissuances. The food stamp overissuances were detected by the department's quality control system and reported to the county officials where the errors occurred. Department policy requires county personnel to prepare an overissuance claim and send it to the department's Fraud and Recovery Section. We found no evidence in the participant's files indicating the overissuances were ever referred to the Fraud and Recovery Section as required by policy. The two overissuances totalled to $992 and we question the allowability of these amounts.

Department personnel indicated notifying the Fraud and Recovery section of overissuances is sometimes not a high priority. They indicated notifying the Fraud and Recovery section of obvious fraud is a higher priority than client errors of lesser significance.

Recommendation #19

We recommend the department ensure county employees promptly report all food stamp overissuances to the department's Fraud and Recovery Section.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented. We issued a qualified opinion on the financial schedules because the department could not provide sufficient evidence for us to determine the reasonableness of the Special Revenue Fund beginning and ending Fund Balance on the Schedule of Changes in Fund Balance for the two fiscal years ended June 30, 1991. Fund Balance includes the net results of revenue, expenditures, prior year adjustments, as well as other adjustments. The reader should use caution when using the financial information from the Statewide Budgeting and Accounting System (SBAS) presented in these schedules.

STATE OF MONTANA
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Operations and EDP Audit
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Financial-Compliance Audit
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Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Department of Social and Rehabilitation Services for each of the two fiscal years ended June 30, 1990 and 1991, shown on pages 34 through 42. These financial schedules are the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

The Department of Social and Rehabilitation Services was unable to provide adequate accounting records to support the Special Revenue Fund fund balance amount of $(2,530,153) and $2,560,447 at July 1, 1989 and June 30, 1991, respectively, as described in notes 5 and 7 to the financial schedules.

In our opinion, except for effects of such adjustments, as might have been determined to be necessary had we been able to examine the appropriate accounting records regarding the Fund Balances, the financial schedules referred to in the first paragraph, present fairly, in all material respects, the results of operations and changes in Fund Balance of the Department of Social Rehabilitation Services for the two years ending June 30, 1990 and 1991, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 30, 1991

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	General Fund	Special Revenue Fund	Enterprise Fund
Fund Balance: July 1, 1989	$ 0	$ (2,530,153)[1]	$ 0
ADDITIONS:			
Fiscal Year 1989-90			
Budgeted Revenue & Transfers In	197,751	222,481,397	1,696,661
Nonbudgeted Expenditures & Transfers Out		7,448	
Prior Year Revenue Adjustments	37,556[2]		
Prior Year Expenditure Adjustments	4,069,315[2]	11,240,901[2]	
Support from State of Montana	74,187,193		
Cash Transfers In		930,401	
Fiscal Year 1990-91			
Budgeted Revenue & Transfers In	212,616	265,634,336	2,138,410
Nonbudgeted Expenditures & Transfers Out	23,012		
Prior Year Expenditure Adjustments	424,199		
Prior Year Expenditure		5,143	
Direct Entries to Fund Balance	1,651,816[3]		
Support from State of Montana	86,529,792		
Prior Year Transfers Out Adjustments	8,060		
Nonbudgeted Revenue & Transfers In		43,058	
Cash Transfers In		964,172	
Total Additions	167,341,310	498,776,703	3,835,071
REDUCTIONS			
Fiscal Year 1989-90			
Budgeted Expenditures & Transfers Out	78,361,445	222,803,653	971,320
Nonbudgeted Expenditures & Transfers Out	130,370		
Prior Year Transfers In Adjustments		173,265	
Prior Year Transfers Out Adjustments		33,078	
Prior Year Revenue Adjustments		1,080,569	
Direct Entries to Fund Balance		525,904	
Fiscal Year 1990-91			
Budgeted Expenditures & Transfers Out	88,810,451	266,396,801	1,282,210
Nonbudgeted Expenditures & Transfers Out		44,489	
Prior Year Transfers Out Adjustments		12,366	
Prior Year Revenue Adjustments	39,044	1,699,602	
Prior Year Expenditure Adjustments		1,772,371[3]	2,895[3]
Direct Entries to Fund Balance		1,674,158[3]	225,341[3]
Total Reductions	167,341,310	496,216,256	2,481,766
FUND BALANCE: June 30, 1991	$ 0	$ 2,560,447[1]	$1,353,305[1]

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[1] See note 5 on page 41.
[2] See note 7 on page 42.
[3] See note 6 on page 42.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 42.

DEPARTMENT OF SOCIAL & REHABILITATION SERVICES
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN BY REVENUE CLASS - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	Charges for Services	Miscellaneous	Taxes	Investment Earnings	Federal Indirect Cost Recoveries	Contributions and Premiums	Grants, Contracts, Donations	Other Financing Sources	Federal	Total
al Year 1990-91										
ERAL FUND										
timated Revenue	$ 176,030	$ 75,000								$ 251,030
tual Revenue	131,675	80,941								212,616
llections Over (Under) Estimate	$ (44,355)	$ 5,941								$ (38,414)
CIAL REVENUE FUND										
imated Revenue	$3,432,473		$7,030,000	$248,954	$ 200,000	$316,952	$ 234,000	$ 316,952	$230,826,483	$242,605,814
tual Revenue	3,063,037		7,029,997	226,282	131,675	722,973	191,271	0	254,299,101	265,664,336
llections Over (Under) Estimate	$ (369,436)		$ (3)	$(22,672)	$ (68,325)	$406,021	$ (42,729)	$ (316,952)	$ 23,472,618	$ 23,058,522
TERPRISE FUNDS										
timated Revenue	$ 100,000			$ 36,000					$ 837,000	$ 973,000
tual Revenue	0			49,633					2,088,777	2,138,410
llections Over (Under) Estimate	$ (100,000)			$ 13,633					$ 1,251,777	$ 1,165,410
al Year 1989-90										
ERAL FUND										
timated Revenue	$ 250,000	$ 650,000								$ 900,000
tual Revenue	129,608	68,143								197,751
llections Over (Under) Estimate	$ (120,392)	$(581,857)								$ (702,249)
CIAL REVENUE FUND										
imated Revenue	$2,300,000		$6,907,000	$315,600	$ 1,681,000	$242,000	$ 202,000	$ 5,871,640	$210,000,000	$227,519,240
tual Revenue	3,144,597		6,907,000	252,446	129,633	274,866	32,392	621,965	211,118,499	222,481,397
llections Over (Under) Estimate	$ 844,597		$ 0	$(63,154)	$(1,551,367)	$ 32,866	$(169,608)	$(5,249,675)	$ 1,118,499	$ (5,037,843)
TERPRISE FUNDS										
timated Revenue	$ 350,000			$ 18,000					$ 1,605,846	$ 1,973,846
tual Revenue	0			38,446					1,658,215	1,696,661
llections Over (Under) Estimate	$ (350,000)			$ 20,446					$ 52,369	$ (277,185)

s schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 42.

DEPARTMENT OF SOCIAL & REHABILITATION SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Family Assistance	Eligibility Determination Program	Administrative & Support Services	Child Support Enforcement	State Assumed County Administration	Medicaid Services	Audit and Program Compliance Division	Office of Management, Analysis & Systems	Vocational Rehabilitation Program	Disability Determination Program	Visual Services Program	Developmental Disability Program	Developmental Disability Advisory Council	Total
ONAL SERVICES														
aries	$ 920,745	$7,223,022	$1,195,439	$2,130,466		$ 1,005,284	$ 846,498	$ 913,854	$1,591,394	$ 875,653	$ 323,610	$ 878,350	$ 54,512	$ 17,958,827
her Compensation			63						3,013					3,078
ployee Benefits	203,478	1,773,094	265,512	515,843		218,783	196,519	204,906	374,629	186,123	75,860	192,043	13,605	4,220,395
tal	1,124,223	8,996,116	1,461,014	2,646,309		1,224,067	1,043,017	1,118,760	1,969,036	1,081,776	399,470	1,070,393	68,117	22,182,298
ATING EXPENSES														
her Services	1,382,499	1	341,846	466,983	$ 279,083	2,558,502	17,483	8,042,460[†]	131,481	1,040,972	16,114	60,474	3,260	14,341,158
pplies & Materials	102,717	1,567	100,373	105,466	71,636	12,745	18,748	82,660	33,961	15,198	9,029	20,268	2,374	578,680
mmunications	45,710	554	336,915	155,407	243,377	39,512	34,969	72,736	68,859	94,337	18,437	39,298	3,388	1,173,299
avel	98,361	168,776	20,312	22,537	206	55,489	29,599	72,211	75,713	10,787	27,920	72,838	17,544	690,293
nt	183,643		104,583	134,573	384,913	69,861	68,229	118,829	124,757	92,548	29,549	68,050	8,168	1,367,703
ilities	17,145				669				268					18,082
pair & Maintenance	64,212	968	33,404	28,073	34,991	6,999	6,720	27,649	7,289	27,638	1,068	9,197	819	248,027
her Expenses	52,817	11,267	145,877	12,328	3,867	9,163	4,769	5,813	18,339	2,852	3,781	13,575	2,562	293,010
tal	1,945,284	202,333	1,083,310	931,307	1,018,742	2,752,271	180,517	8,422,358	480,487	1,204,332	105,698	283,698	37,915	18,725,252
IPMENT AND INTANGIBLE ASSETS														
uipment	282,408		37,197	63,092	12,495	21,144	7,846	318,938	55,687	4,171	5,533	13,903	16,702	819,118
tangible Assets	50,543		3,664	6,063	2,733	18,878	1,085	18,842	9,399	36,500	2,360	1,466		149,333
otal	332,951		40,861	69,155	15,228	37,822	8,931	337,780	65,086	40,671	7,893	15,369	16,702	968,449
AL ASSISTANCE														
rom State Sources	68,816													68,816
rom Federal Sources				11,442										11,442
tal	68,816			11,442										80,258
EFITS & CLAIMS														
Individuals	62,610,034					219,091,389	136,094		5,584,898	48,246	733,659	24,148,314	233,023	312,585,657
rom State Sources						962,839								962,839
rom Federal Sources							200							200
otal	62,610,034					220,054,228	136,294		5,584,898	48,246	733,659	24,148,314	233,023	313,548,696
NSFERS														
ccounting Entity Transfers	784,745					186,000								970,745
otal	784,745					186,000								970,745
T SERVICE														
eases										10,764				10,764
otal										10,764				10,764
AL PROGRAM EXPENDITURES	$66,846,053	$9,198,449	$2,585,185	$3,658,213	$1,033,970	$224,254,388	$1,368,759	$9,878,898	$8,099,507	$2,445,789	$1,246,720	$25,517,774	$355,757	$356,489,462
ERAL FUND														
Budgeted	$16,795,221	$2,601,059	$ 906,809		$ 537,726	$ 56,803,152	$ 621,518	$1,714,934	$ 961,749		$ 284,056	$ 9,772,974		$ 90,999,198
Actual	15,463,983	2,335,196	880,772		530,219	56,368,082	588,488	1,672,866	947,021		256,829	9,766,995		88,810,451
Unspent Budget Authority	$ 1,331,238	$ 265,863	$ 26,037		$ 7,507	$ 435,070	$ 33,030	$ 42,068	$ 14,728		$ 27,227	$ 5,979		$ 2,188,747
CIAL REVENUE FUND														
Budgeted	$56,567,558	$7,276,987	$1,732,822	$2,488,509	$ 524,948	$170,637,893	$ 806,371	$8,463,251	$7,454,151	$2,577,906	$1,114,983	$18,407,196	$411,254	$276,461,629
Actual	51,382,070	6,863,253	1,692,058	2,433,827	503,751	167,886,306	775,594	8,165,240	7,152,486	2,445,789	989,891	15,750,779	355,757	266,396,801
Unspent Budget Authority	$ 5,185,488	$ 413,734	$ 40,764	$ 54,682	$ 21,197	$ 2,751,587	$ 30,777	$ 298,011	$ 301,665	$ 132,117	$ 125,092	$ 2,656,417	$ 55,497	$ 10,064,828
TERPRISE FUNDS														
Budgeted			$ 12,356	$1,229,974			$ 7,631	$ 40,852						$ 1,290,813
Actual			12,355	1,224,386			4,677	40,792						1,282,210
Unspent Budget Authority			$ 1	$ 5,588			$ 2,954	$ 60						$ 8,603

ee note 8 on page 42.

his schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 42.

DEPARTMENT OF SOCIAL & REHABILITATION SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Family Assistance	Eligibility Determination Program	Administrative & Support Services	Child Support Enforcement	State Assumed County Administration	Medical Services	Audit and Program Compliance Division	Office of Management, Analysis & Systems	Vocational Rehabilitation Program	Disability Determination Program	Visual Services Program	Developmental Disability Program	Developmental Disability Advisory Council	Total
NAL SERVICES														
aries	$ 812,094	$7,042,889	$1,490,837	$1,285,269		$ 835,644	$ 782,545	$ 470,944	$1,582,524	$1,093,022	$ 346,552	$ 789,415	$ 49,110	$ 16,560,845
ner Compensation			50			3,000								3,050
loyee Benefits	174,016	1,654,732	322,098	303,994		178,938	177,058	89,962	354,097	200,233	77,672	168,562	12,104	3,713,486
al	986,110	8,697,841	1,812,985	1,589,263		1,017,582	959,603	560,906	1,916,621	1,293,255	424,224	957,977	61,214	20,277,381
TING EXPENSES														
ner Services	1,305,854	749	356,076	318,739	$ 393,354	2,442,478	12,842	3,689,595	103,978	794,671	14,951	68,125	3,237	9,502,449
plies & Materials	86,031	299	71,440	81,682	75,768	21,276	13,031	51,873	35,893	20,596	9,742	32,112	1,724	501,467
munications	42,759	485	290,861	122,545	231,821	32,856	33,159	31,587	87,335	98,946	18,179	36,882	2,836	1,030,251
vel	109,930	158,094	21,305	23,035		36,870	41,468	23,805	68,457	12,681	30,246	67,444	15,812	629,347
nt	174,981		145,614	85,182	327,206	71,236	60,844	47,634	128,120	98,796	28,156	65,977	3,425	1,237,171
lities	16,494				335	9	8		261			10		17,117
pair & Maintenance	34,920		33,410	12,522	29,197	931	3,380	1,625	8,190	36,389	1,421	7,444	378	169,807
her Expenses	19,269	9,554	137,370	12,078	3,172	7,571	2,770	13,349	16,764	3,932	2,831	7,916	2,263	238,839
tal	1,790,238	169,181	1,056,076	655,783	1,060,853	2,613,227	167,302	3,859,468	468,998	1,066,211	105,526	283,910	29,675	13,326,448
PMENT AND INTANGIBLE ASSETS														
uipment	99,328		38,971	327,918	17,302	74,183	29,572	159,465	17,588	12,581	7,572	7,270	294	292,044
tangible Assets	4,077		6,319	22,179	1,946	5,289	4,843	8,952	2,010	222	1,577	2,553		59,967
tal	103,405		45,290	350,097	19,248	79,472	34,415	168,417	19,598	12,803	9,149	9,823	294	852,011
L ASSISTANCE														
om Federal Sources				11,169										11,169
tal				11,169										11,169
FITS & CLAIMS														
Individuals	54,891,459					182,368,402	87,519		5,582,972	44,071	686,518	21,225,037	194,939	265,000,917
om State Sources						1,411,778								1,411,778
tal	54,891,459					183,780,180	87,519		5,582,972	44,071	686,518	21,225,037	194,939	266,492,695
SFERS														
counting Entity Transfers	1,176,714													1,176,714
tal	1,176,714													1,176,714
AL PROGRAM EXPENDITURES	$58,947,926	$8,866,822	$2,914,351	$2,606,312	$1,080,101	$187,490,461	$1,248,839	$4,588,791	$7,988,189	$2,416,340	$1,225,417	$22,476,747	$286,122	$302,136,418
ERAL FUND														
udgeted	$17,478,987	$2,516,851	$1,035,429		$ 669,946	$ 49,975,347	$ 612,304	$1,033,735	$ 902,582		$ 276,574	$ 8,387,796		$ 82,889,551
ctual	14,951,870	2,244,710	962,958		637,680	48,897,273	598,520	893,868	847,433		261,212	8,065,921		78,361,445
nspent Budget Authority	$ 2,527,117	$ 272,141	$ 72,471		$ 32,266	$ 1,078,074	$ 13,784	$ 139,867	$ 55,149		$ 15,362	$ 321,875		$ 4,528,106
CIAL REVENUE FUND														
udgeted	$49,955,683	$6,970,592	$2,309,806	$2,063,936	$ 462,084	$142,827,161	$ 740,182	$4,221,691	$7,392,913	$2,714,690	$1,029,963	$14,586,255	$302,500	$235,577,456
ctual	43,996,056	6,622,112	1,883,150	1,714,929	442,421	138,593,188	650,319	3,683,229	7,140,756	2,416,340	964,205	14,410,826	286,122	222,803,653
nspent Budget Authority	$ 5,959,627	$ 348,480	$ 426,656	$ 349,007	$ 19,663	$ 4,233,973	$ 89,863	$ 538,462	$ 252,157	$ 298,350	$ 65,758	$ 175,429	$ 16,378	$ 12,773,803
ERPRISE FUNDS														
udgeted			$ 106,637	$1,047,210			$ 879	$ 15,607						$ 1,170,333
ctual			68,243	891,383			0	11,694						971,320
nspent Budget Authority			$ 38,394	$ 155,827			$ 879	$ 3,913						$ 199,013

s schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 42.

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES
SCHEDULE OF ADDITIONS AND REDUCTIONS TO THE CHILD SUPPORT AGENCY FUND
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

CHILD SUPPORT PAYMENTS TO BE DISTRIBUTED AT JULY 1, 1989	$ 0
ADDITIONS	
Fiscal Year 1989-90:	11,307,569
Fiscal Year 1990-91:	16,085,603
Total Additions	27,393,172
REDUCTIONS	
Fiscal Year 1989-90:	11,166,274
Fiscal Year 1990-91:	15,863,170
Total Reductions	27,029,444
CHILD SUPPORT PAYMENTS TO BE DISTRIBUTED AT JUNE 30, 1991	$ 363,728

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 39 through 42.

Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Agency Funds. In applying the modified accrual basis, the department records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the department incurs the related liability and it is measurable.

The department uses accrual basis accounting for its Proprietary Fund. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include various federal grants such as Medicaid, Food Stamps, Aid to Families with Dependent Children (AFDC), Low Income Home Energy Assistance Program (LIHEAP), Vocational Rehabilitation, and Social Services.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The Enterprise Fund accounts for Child Support Enforcement services.

Fiduciary Funds

Agency Fund - to account for assets held by the State as an agent for individuals, private organizations, other governments or other funds. The Agency Fund is used to account for child support payments collected on behalf of children or single parents where a parent has not paid required support payments.

2. Annual and Sick Leave

Employees at the department accumulate both annual and sick leave. The department pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1990 and at June 30, 1991, the department had a liability of $1,936,000 and $2,135,000, respectively.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contribution to this plan was $1,043,000 in fiscal year 1989-90 and $1,140,000 in fiscal year 1990-91.

4. Inventories

Security Armored Express had $10,039,000 of food stamps on hand at June 30, 1991. Security Armored Express contracts with the department to store these food stamps. The department is insured for the amount in storage because the department is accountable to the federal government for the food stamps inventory. The department issued food stamps valued at $39,347,072 in fiscal year 1989-90 and $44,855,372 in fiscal year 1990-91. In addition, the department had title to $1,849,635 of food commodities inventory at June 30, 1991 stored in a leased warehouse. The department issued food commodities valued at $4,296,924 in fiscal year 1989-90 and $4,330,721 in fiscal year 1990-91.

5. Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

Using the modified accrual basis of accounting, intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. As a result, accounting entities in which intergovernmental financial activity is recorded should have a zero fund balance at the end of each fiscal year. The Special Revenue Fund fund balance in one accounting entity has not been reconciled to zero since fiscal year 1984-85. Since that time the fund balance amount has varied from a negative $7,454,206 to a positive $3,836,460 due to various recording errors. The actual fund balance of the Special Revenue Fund has not been determined.

After the end of each fiscal year, the department deposits the Enterprise Fund balance in excess of $500,000 into the General Fund as required by state law. After the end of each fiscal year 1989-90 and 1990-91, the department deposited $225,341 and $853,305 respectively into the General Fund to reduce the Enterprise Fund to its legally mandated level.

6. Direct Entries to Fund Balance

The department increased the General Fund balance by $1,651,816 and decreased the balances in the Special Revenue and Enterprise Funds by $1,674,158 and $225,341 respectively, with direct entries in fiscal year 1990-91. These entries include a $1.5 million residual equity transfer of state moneys from the Special Revenue Fund and a $225,341 transfer of excess Enterprise Fund balance as discussed in note 5.

7. Prior Year Expenditure Adjustments

The fiscal year 1989-90 prior year expenditure adjustment amount includes a transaction which reduced prior year expenditures by $2.9 million in the General Fund and by $7.3 million in the Special Revenue Fund. The adjustment reduced prior year expenditures for Medicaid accruals which were over-estimated in a previous year. Since the department did not record a corresponding adjustment to prior year revenue, the prior year expenditure adjustment caused an increase in the Special Revenue Fund fund balance. See the related disclosure on fund balance note 5.

8. Other Service Expenditures

In fiscal year 1990-91, other services expenditures increased by $4,352,865 for the Office of Management, Analysis, and Systems. The increase occurred due to contracts for services to develop computer systems.

Agency Response

DEPARTMENT OF
SOCIAL AND REHABILITATION SERVICES

STAN STEPHENS
GOVERNOR

JULIA E. ROBINSON
DIRECTOR

STATE OF MONTANA

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(406) 444-5622

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MAR 18 1992

March 16, 1992

TO: Scott Seacat
Legislative Auditor

FROM: Julia E. Robinson
Director

SUBJECT: FINANCIAL AND COMPLIANCE AUDIT FOR THE TWO YEARS ENDED JUNE 30, 1991

Attached is the Department's response to each recommendation made in the above mentioned audit. Included in the response as Attachment I is an update on the status of Prior Audit Recommendations from the FY88 and FY89 Legislative Audit.

I would like to emphasize my personal commitment to your office and the Legislative Audit Committee to follow through on the recommendations contained in the current audit.

I would also like to take this opportunity to express my thanks to the auditors performing the work necessary to complete the audit. They conducted themselves in a courteous and professional manner at all times.

Audtresp.91

Attachment

"Working Together To Empower Montanans"

Recommendation #1: We recommend the department establish control over its contingent revolving fund account.

Agency Response: Concur. In April, 1991 agency personnel identified potential problems with the past procedures of the CRF monthly reconciliations. New reconciliation forms, procedures and policies were created. Training classes were presented for the section supervisor, lead worker and employee performing the duties of the reconciliations and review. At the same time, agency personnel went back and reworked all prior CRF monthly reconciliations to ensure accuracy and adherence and compliance to policy. The $2100 that was improperly written off was subsequently corrected; strict supervision, review and tighter controls have been placed on the CRF, SBAS and bank reconciliation. Also, with the inception of TEAMS the number of checks written has been significantly reduced and will be further reduced in FY 93 when the new GA enhancements to TEAMS are implemented.

Recommendation #2: We recommend the department analyze the second-party review policy and make changes necessary to ensure the performance of effective quality control review of General Relief Assistance cases.

Agency Response: Concur. The department has found the existing second party review form and process to be unduly cumbersome to the counties. A new second party review process and procedure will be formulated this year with the state assumed counties to address the issue.

Recommendation #3: We recommend the department ensure employees at the counties review all new General Assistance case files before issuing payment.

Agency Response: Concur. The staffing patterns currently existing in county offices prohibit the review of every general relief case prior to issuance of benefits. The department plans to implement an automated check writing system as part of the new overall GRA/PWP system. This new function will ensure a review of case history on the system prior to authorization of benefits.

Recommendation #4: We recommend the department review the condition of the files at its county offices and implement procedures to ensure compliance with the general assistance program policy.

Agency Response: Concur. Presently when GRA/PWP on-site reviews are conducted, files at the county office are checked for documentation and proper authorization. This type of evaluation will continue. Additionally, use of the new check-writing system will force county offices to track GRA eligibility factors on the computer as well as in case files.

Recommendation #5: We recommend the department analyze and correct fund balances in the federal special revenue account.

Agency Response: Concur. As stated in the report, agency personnel has implemented procedures to correct fund balance by the end of fiscal year 1991-92.

Recommendation #6: We recommend the department establish procedures to ensure revenue and expenditures are properly deferred or accrued in accordance with state law.

Agency Response: Concur. It has been explained to personnel who prepare revenue accruals and deferrals at year-end that revenue does not match expenditures in all accounting entities. These will be evaluated on an individual basis.

Recommendation #7: We recommend the department record the cost of computer software on the state's accounting system.

Agency Response: Concur. A procedure is being written to assure that the intangible assets will be included in the PAMS adjustment. An adjustment of $209,300 will be made in the current year to correct PAMS.

Recommendation #8: We recommend the department comply with state appropriation law.

Agency Response: Concur. Department personnel will be more conscientious in monitoring the five percent operating plan limitations. This task is especially challenging at fiscal year end due to the size of the department, however, a greater effort to ensure compliance will be made.

The main problem continues, as it has in the past, that the availability of information from SBAS and the time available to process program transfer documents through OBPP before FYE closing is insufficient.

Recommendation #9: We recommend the department:

A. Comply with the provisions of section 40-5-116, MCA, regarding child support reporting; or

B. If necessary, seek legislation to modify section 40-5-118, MCA, to remove unnecessary requirements.

Agency Response: Concur. The auditor accurately cites the rationale for the division's failure to comply with section 40-5-118, MCA, subsections (2a) and (4). The requirements are obsolete, have been obsolete for a number of years, and should be repealed.

We will include a recommendation for a repealer in our legislative package.

Recommendation #10: We recommend the department:

A. Comply with the term contract requirements as provided by state publishing policy.

B. Process purchase orders through the Department of Administration for purchases when like items have a combined cost of more than $2,000.

Agency Response: Concur. Fax Machine Term Contract for Fiscal Year 1991 was limited to two Fax Machines, a low volume machine for $1,100 and a medium volume for $1,600. The Purchasing Officer was well aware that state purchasing policy was not being followed by obtaining written bids for a machine at a lesser price instead of following Term Contract; the $500 cost differential was the major factor in not complying. The long-term cost of paper was even higher on the Term Contract: a case of 6 rolls thermal paper was $24.50 higher than many local sources. In the future, the Purchasing Office will follow term contract provision even at the risk of spending more money.

The Agency did not intentionally divide the purchase orders to circumvent policy. It has been an accounting request that purchase orders be separated by responsibility center for tracking ease. This procedure is used throughout for all purchases.

All purchase orders, with the exception of Vocational Rehabilitation purchases, where the department has written authority to deviate, that exceed $2,000 of like items will be prepared on the appropriate documents and forwarded to the Department of Administration Purchasing Office for processing.

Recommendation #11: We recommend the department transfer $169,167 in statewide cost allocation plan reimbursements to the General Fund as required by state policy.

Agency Response: Do not concur. The department believes, as it has in the past, that it has complied with the state policy and statute (Section 17-3-111, MCA)---"the agency shall endeavor, to the fullest extent possible, to recover indirect costs from federal assistance programs".

When the Legislature appropriates federal funds to the department, including block grant funds and capped federal grants, to be used for direct administrative costs and client benefits, those sources of funds are not available for indirect cost recovery. Therefore, the department has transferred recoverable SWCAP costs to the General Fund.

The Legislature appropriates funds from the Special Revenue Fund for SWCAP recovery transfers, but provides no appropriation to any State agency from the General Fund to transfer to the General Fund for unrecoverable SWCAP costs.

Recommendation #12: We recommend the department suspend computer system log-on identification codes when employees terminate employment.

Agency Response: Concur. The department is currently evaluating plans to implement periodic personnel reviews with agency divisions to ensure the log-on IDs are rescinded, as applicable. The Personnel Division is also providing the agency security officer with termination/transfer listings to ensure terminated or transferred personnel security profiles are canceled or modified.

Recommendation #13: We recommend the department pay Medicaid claims only for drugs which are considered effective by the Food and Drug Administration.

Agency Response: Concur. The department agrees that drugs that are considered less than effective by the Food and Drug Administration, or identical, related or similar by HCFA should not be paid. The department has taken corrective action to ensure that the most current list of less-than-effective drugs is implemented to control payments of the claims.

First Data Bank maintains the DESI file and created a second file indicator (DESI II) to allow states the option of implementing the new list or maintaining the old list and to maintain the integrity of the existing file. This was done because of concerns of the accuracy of HCFA update. The creation of this DESI II indicator contributed to the fact that this update was not completed in Montana's claims processing system. If documentation indicates contractor error, the department will seek reimbursement from the contractor.

Recommendation #14: We recommend the department obtain and review audit reports of nonprofit organizations as required by OMB Circular A-133.

Agency Response: Concur. Department personnel are currently reviewing copies of the 1991 audits. Language is being inserted in new contracts requiring the nonprofit organizations comply with OMB Circular A-133.

Recommendation #15: We recommend the department:

A. Ensure Emergency Food Assistance programs are reviewed annually in accordance with federal regulations.

B. Monitor all emergency food assistance program corrective action plans.

Agency Response: Concur. Department personnel will develop a control procedure for ensuring reviews and corrective action plans are completed as required by federal regulations.

Recommendation #16: We recommend the department implement a system to ensure FDIR workpapers and reports are retained for three years in accordance with federal regulation.

Agency Response: Concur. The control procedure addressed in the agency response to recommendation #15 will include a mechanism to ensure compliance with regulatory requirement for record retention.

Recommendation #17: We recommend the department maintain all cost allocation plan support documentation for three years as required by federal regulations.

Agency Response: Concur. The Department no longer has the Front-End Investigator Program and all cost allocation documentation is maintained.

Recommendation #18: We recommend the department correct the overcharges in the Medicaid and Low-Income Energy Assistance programs, and the undercharge in the Vocational Rehabilitation program.

Agency Response: Concur. The error was corrected. The agency has internal audit procedures established to catch these keypunch errors.

Recommendation #19: We recommend the department ensure county employees promptly report all Food Stamp overissuances to the department's Fraud and Recovery Section.

Agency Response: Concur. Overissuances are now being reported to the Fraud and Recovery Section promptly through TEAMS. Teams automatically calculates overpayment amounts and directs the ET through the necessary overpayment screens. TEAMS then reports all overpayment information to the Fraud and Recovery Section on a weekly basis.

Prior Audit (FY 1988 and 1989) Recommendations
March, 1992 Status

Recommendation #15: The department communicate control procedures for authorization of elderly and handicapped waiver expenditures to contractors and ensure contractors implement them effectively.

Agency Response: Concur. Department personnel will review control procedures with the contractors as compliance reviews and financial audits are completed. To date, two case management teams have had financial audits completed by departmental staff in FY 90-91. Financial audits have been scheduled for three additional management teams in FY 91-92. Department personnel will complete compliance reviews in conjunction with the five financial audits. It is during the compliance reviews that control procedures relating to waiver claim approval/denial/authorization are reviewed.

Department personnel has communicated the claim authorization procedures with contractors through the Request for Proposal process, manual material, and compliance review format.

Recommendation #16 and #17: Relate to internal control procedures in use of the Contingent Revolving Fund (CRF).

Agency Response: Concur. Training sessions have been provided in use of the CRF check logs and use of the "best possible practice" is used in counties with few staff.

Recommendation #23: The department analyze and correct amount fund balance in the federal special revenue account.

Agency Response: Concur. As stated in reply to current audit recommendation #5, this will be completed by end of FY 91-92.

Recommendation #26: The department transfer in statewide cost allocation plan reimbursements to the General Fund as required by state policy.

Agency Response: Do Not Concur. The department believes, as it has in the past, that we are in compliance with state policy. See reply to current audit recommendation #11.